

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

Globalcom, Inc.)

vs.)

Illinois Bell Telephone Company, d/b/a)
Ameritech Illinois)

Docket No. 02-0365

In the Matter of a Complaint Pursuant to 220)
IL CS 5/13-515, 220 ILCS 10/101 and 10-108)

DIRECT TESTIMONY OF

CHRIS F. CASS

Ameritech Illinois Exhibit 6.0

On behalf of

AMERITECH ILLINOIS

June 25, 2002

OFFICIAL FILE

I.C.C. DOCKET NO. 02-0365

Amer Ill Exhibit No. 6.0

Witness

Date 7/6/02 Reporter J'cu

1 **INTRODUCTION AND BACKGROUND**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Chris F. Cass. My business address is One Bell Center, 38-V-7, St.
4 Louis, Missouri 63101.

6 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?**

7 A. I am employed in the Cost Analysis Division at SBC Communications, Inc., by
8 Southwestern Bell Telephone Company, L.P. My position is Associate Director -
9 Cost Analysis and Regulatory. The Cost Analysis Division provides services to
10 Ameritech Illinois, including regulatory and cost analysis support.

12 **Q. WHAT ARE YOUR RESPONSIBILITIES AS ASSOCIATE DIRECTOR-**
13 **COST ANALYSIS AND REGULATORY?**

14
15 A. I am responsible for:

- 16 1. Coordinating the development of cost methods and the production of cost
17 studies that identify the recurring and nonrecurring costs incurred in providing
18 SBC's services and unbundled network elements; and,
19 2. Analyzing cost study results and presenting them in regulatory proceedings.

20
21 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
22 **WORK EXPERIENCE.**

23
24 A. I hold both a Bachelor of Science degree in Business Economics and a Master of
25 Science degree in Economics and Finance. In addition to my formal education, I
26 have studied and participated in the development of costing methodologies used

27 to set retail price floors and UNE prices for numerous products and services
28 across the states served by SBC. A more detailed summary of my background is
29 set forth in Exhibit A - ____ (CFC-1).

30
31 **PURPOSE OF TESTIMONY**

32 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

33 A. I will respond to certain assertions made by Globalcom witness Michael Starkey.
34 In particular, I will respond to Mr. Starkey's assertion that Ameritech Illinois
35 would not be left with any "unrecouped costs" upon a conversion of special
36 access services purchased under a term pricing agreement to EELs prior to the
37 termination of that agreement.

38
39 **RELEVANCE OF MR. STARKEY'S TESTIMONY**

40 **Q. WHAT IS THE PURPOSE OF MR. STARKEY'S DIRECT TESTIMONY**
41 **IN THIS PROCEEDING?**

42 A. The purpose of Mr. Starkey's direct testimony in this proceeding is to request the
43 Commission to disregard the terms of the FCC tariff for special access service
44 because "Ameritech's 'termination penalties' are not based on cost, are not
45 reasonably assessed consistent with the parties' interconnection agreement, nor
46 are they aimed at furthering competition in Illinois' local exchange market."

47
48 **Q. ARE MR. STARKEY'S CLAIMS REGARDING AMERITECH'S**
49 **TERMINATION CHARGES ACCURATE AND RELEVANT?**

50 A. No, they are not. Mr. Starkey's claim that the termination charges are not cost
51 based is irrelevant because Ameritech Illinois is not requesting that the
52 termination charges in the FCC tariff apply to UNE elements that are terminated,
53 but instead to special access agreements that are terminated. The rates for special
54 access services are price cap regulated, and are not based on TELRIC pricing.
55 Therefore, provisions and rates in the special access tariff cannot be held to the
56 same TELRIC pricing principles as UNEs.

57

58 Ameritech Illinois witness Deborah Fuentes Niziolek addresses Mr. Starkey's
59 claim that the termination charges are "not reasonably assessed consistent with
60 the parties' interconnection agreement," in her direct testimony. However, I will
61 add that Ameritech Illinois believes that the charges are commonplace, fair, and
62 appropriate. Similar contract terms that require payment for breaking agreements
63 are used not only throughout the communications industry, but also throughout
64 the business world.

65

66 Mr. Starkey's claim that termination charges are not "aimed at furthering
67 competition in Illinois' local exchange market" is an inaccurate appeal to the
68 Commission to grant a subsidy from Ameritech Illinois to Globalcom. The
69 statement is inaccurate because allowing firms the flexibility of using termination
70 charges and holding firms to their business agreements does further competition
71 in Illinois' local exchange market. Narrowing the possible provisions in an
72 agreement or allowing firms to default on business agreements will hinder the

73 market because firms will not be able to conduct business transactions with full
74 knowledge that their agreements will be binding, and the lack of faith in business
75 agreements would likely slow economic development.

76
77 **COST RECOVERY**

78 **Q. IS AMERITECH ILLINOIS "BY DEFINITION" GOING TO RECOVER**
79 **ITS COSTS IF UNE RATES ARE APPLIED INSTEAD OF SPECIAL**
80 **ACCESS RATES, AS ASSERTED BY MR. STARKEY ON PAGE 18 OF**
81 **HIS DIRECT TESTIMONY?**

82 **A.** No. TELRIC rates are not based on actual or embedded costs, but are based on a
83 network that does not actually exist today. In addition, the rate structure of higher
84 special access rates for shorter contract lengths is designed to increase the
85 probability of cost recovery for deployment of new facilities, and increase the
86 economic feasibility of the project. Lowering the price of facilities used by
87 Globalcom will reduce the probability that Ameritech Illinois will recover the cost
88 of the facilities, whether they existed at the time service was requested or they
89 were newly constructed.

90
91 **Q. PLEASE FURTHER EXPLAIN WHY TELRIC PRICING WOULD NOT**
92 **ENSURE COST RECOVERY FOR THE PROVISIONING OF A NEW**
93 **ASSET.**

94 **A.** In my opinion, there are at least two fundamental reasons that TELRIC-based
95 prices do not ensure cost recovery. First, the incumbent local exchange carriers

96 ("ILECs") have no pricing control over unbundled network element prices that
97 comprise the price for EELs. The Illinois Commerce Commission has sole
98 authority over the price that will be assessed to UNEs, which may not reflect the
99 actual cost of placing facilities today, or yesterday. This is obvious due to the fact
100 that TELRIC based rates are not based on actual or embedded network costs, but
101 are based on a network that consists of new technology on the market today that is
102 compatible with the existing infrastructure, assuming actual central office
103 locations. Second, under the UNE pricing agreements, ILECs cannot bind
104 customers to a contract length for UNEs. Therefore, deployment of new facilities
105 at the request of CLECs at a TELRIC based rate would be extremely risky and is
106 not likely to be economically feasible. Hundreds of thousands of dollars of
107 investment could be deployed with nothing more than a thousand dollars of
108 guaranteed compensation. This creates an inefficient market with inefficient
109 pricing constraints.

110
111 **Q. THE SECOND PART OF YOUR ANSWER TO THE PREVIOUS**
112 **QUESTION ADDRESSED THE PERIOD OF TIME FOR WHICH CLECS**
113 **MAINTAIN THE UNE ELEMENTS. IS THIS CONCERN ALLEVIATED**
114 **IN THIS CASE, SINCE GLOBALCOM HAS AGREED TO CONTINUE**
115 **THE USE OF AMERITECH'S FACILITIES FOR THE PREVIOUSLY**
116 **AGREED UPON TIMEFRAME?**

117 **A.** Certainly not. UNE rates are based upon depreciation lives that are often far
118 longer than the agreed upon terms between Ameritech Illinois and Globalcom.

119 Ameritech is not guaranteed cost recovery by Globalcom's assertion that it will
120 maintain the circuits for the previously agreed upon length of time.

121

122Q. ARE THERE ANY OTHER REASONS SPECIFIC TO THIS CASE THAT
123 BRING INTO QUESTION WHETHER OR NOT AMERITECH ILLINOIS
124 WOULD RECOVER ITS COSTS UNDER MR. STARKEY'S PROPOSAL?

125 A . Yes. As stated in the testimony of Ameritech witness Sandra Douglas, under
126 some circumstances, Ameritech's non-recurring special access rates were waived
127 or lowered below TELRIC cost because the costs were recovered through the
128 higher, long-term recurring rates. If CLECs are allowed to have their non-
129 recurring service establishment charges waved by ordering a special access circuit
130 and then converting the special access circuit to UNEs pricing, it is certain that
131 Ameritech Illinois will not recover the non-recurring provisioning costs through a
132 non-recurring charge. Such a policy would not only be in violation of the special
133 access agreement, but would be a violation of TELRIC pricing for UNEs as well.

134

135 CONTRADICTIONS IN MR. STARKEY'S TESTIMONY

136Q. DO YOU AGREE WITH MR. STARKEY'S STATEMENT ON PAGES 17
137 AND 18 OF HIS DIRECT TESTIMONY, THAT THE OBJECTIVE OF
138 RECOVERING THE DIFFERENCE IN REVENUE IF A CUSTOMER
139 RECEIVING A DISCOUNT RENEGES ON THE CONTRACT IS NOT
140 LEGITIMATELY ACHIEVED BY THE TERMINATION CHARGES
141 PROPOSED BY AMERITECH ILLINOIS?

142 A. No, Mr. Starkey states that this objective is not met because Globalcom has
143 "agreed to maintain the circuits at issue for at least the agreed upon timeframe at
144 rates that by definition recover Ameritech's costs."

145.

146Q. **WHY DOES GLOBALCOM AGREEING TO MAINTAIN THE CIRCUITS**
147 **AT ISSUE IN THIS CASE FOR THE PREVIOUSLY AGREED UPON**
148 **TIMEFRAMES, BUT AT UNE PRICES, NOT ALLEVIATE THE**
149 **REVENUE CONCERN?**

150A. Multiplying quantity by price identifies revenue. If the quantity remains the
151 same, but the price falls, Ameritech Illinois will receive less revenue than had
152 Globalcom continued to pay for the circuits as Special Access. The stream of
153 payments agreed to by Globalcom is now being terminated and replaced with a
154 new, lower set of payments. This will not allow the recovery of the difference in
155 revenue had Globalcom continued to pay the Special Access rates, or agreed to
156 pay the special access prices that are respective to the term that the special access
157 prices are actually going to be applied. The only reason that Mr. Starkey really
158 advances for not paying the termination fee is that Globalcom would like to pay
159 less than it has agreed to in its agreements with SBC Ameritech Illinois.
160 Therefore, the objective of a termination charge as stated by Mr. Starkey is met
161 and, thereby, the termination charge is appropriate.

162

163 **CONCLUSION**

164Q. **PLEASE SUMMARIZE YOUR TESTIMONY.**

165 A. Disallowing the special access termination charges set forth in the interconnection
166 agreement between Globalcom and Ameritech Illinois will (1) prejudice
167 Ameritech Illinois by decreasing the payments that Globalcom agreed to pay to
168 Ameritech Illinois under the FCC special access tariff without following the
169 termination charge provision; and, (2) prejudice Ameritech Illinois by decreasing
170 the probability of cost recovery for its facilities used to provision special access
171 circuits for Globalcom.

172

173Q. **DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

174A. Yes, it does.

SUMMARY OF EDUCATION AND WORK EXPERIENCE

EDUCATIONAL BACKGROUND

I hold both a Bachelor of Science degree in Business Economics and a Master of Science degree in Economics and Finance from Southern Illinois University- Edwardsville.

WORK EXPERIENCE

I became an employee of SBC Telecommunications, Inc., in March 2000. My current position is Associate Director-Cost Analysis and Regulatory. In that position, I am responsible for coordinating the production of cost studies that determine the nonrecurring costs incurred in providing Company services and elements, the development of cost methods, and analyzing cost study results. During my employment at SBC, I have coordinated with subject matter experts to properly identify the forward-looking tasks that are necessary to provision elements and services. I have also conducted several work-site field visits to observe maintenance and provisioning tasks, and have spoken with work group representatives to verify that the time estimates given by subject matter experts are accurate.

REGULATORY TESTIMONY

Before the California Public Utilities Commission, *Application by Pacific Bell Telephone Company (U 1001 C) for Arbitration of an Interconnection Agreement with MCI Metro Access Transmission Services, L.L.C. (U 5253 C) Pursuant to Section 252(b) of the Telecommunications Act of 1996*, Application 01-01-010, March 23, 2001.

Before the Missouri Public Service Commission, *SWBT – AT&T Arbitration*, Case No. TO-2001-455, May 9, 2001.

Before the Oklahoma Corporation Commission, *Approval of Nonrecurring Rates for Conditioning Unbundled Digital Subscriber Line (DSL) Capable Loops*, Cause No. PUD 200000192, May 30, 2001.

Before the Illinois Commerce Commission, *Proposed implementation of High Frequency Portion of Loop (HFPL)/Line Sharing Service*, Docket No. 00-0393, July 23, 2001.

Before the Missouri Public Service Commission, *In the Matter of the Determination of Prices, Terms, and Conditions of Conditioning for xDSL-Capable Loops*, Case No. TO-2001-439, November 1, 2001.

Before the Missouri Public Service Commission, *In the Matter of the Determination of Prices, Terms and Conditions of Certain Network Elements*, Case No. TO-2001-438, December 3, 2001.

Before the Missouri Public Service Commission, *Arbitration of Interconnection Agreement Between MCImetro Access Transmission Services, L.L.C., Brooks Fiber Communications of Missouri, Inc., MCI WorldCom Communications, Inc., and Southwestern Bell Telephone Company*, Case No. TO-2002-222, January 14, 2002.

Before the Indiana Utility Regulatory Commission, *In the Matter of the Commission Investigation and Generic Proceeding on Ameritech Indiana's Rates for Interconnection Service, Unbundled Elements, and Transport and Termination under the Telecommunications Act of 1996 and Related Indiana Statutes*, Cause No. 40611-S1, June 5, 2002.